

PEPSICO, INC. (NASDAQ: PEP)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

PepsiCo, Inc. engages in the manufacture, marketing, distribution and sale of beverages, food and snacks. It is a food and beverage company with a complementary portfolio of brands, including Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. It operates through the following business segments: Frito-Lay North America, Quaker Foods North America, North America Beverages, Latin America, Europe Sub-Saharan Africa, and Asia, Middle East and North Africa. The Asia, Middle East and North Africa segment offers snack food products under the Lay's, Kurkure, Chipsy, Doritos, Cheetos, and Crunchy brands. The company was founded by Donald M. Kendall, Sr. and Herman W. Lay in 1965 and is headquartered in Purchase, NY.

Investment Thesis:

- **PepsiCo holds a large portfolio of global industry leading brands.** Some of the company's brands include Pepsi-Cola, Frito-lay, and Gatorade. These brands hold market leader positions across key markets in beverages and snacks across the globe.
- **The company's large scale enables efficient operations and limited costs.** Through the company's size, PepsiCo has developed the capabilities to produce at massive volumes and limiting Selling, General and Administrative Expense (SG&A) costs.
- **PepsiCo has identified an increase opportunity in energy beverages and has been able to capitalize on it through a strong balance sheet.** PepsiCo lacks a large opportunity in energy beverages. Through the company's robust balance sheet, the recent Rockstar acquisition serves as a platform to compete within this space.

Industry Drivers/Trend

Consumer Packaged Food Products & Beverages:

- Population demographics have shifted dramatically and with that, food tastes. The increasing millennial population places more emphasis on healthy foods and beverages.
- A key development in the beverage industry is that there is an increasing number of regional competitors in emerging markets. This aspect has also been a source of capital allocation for the company, as they seek to grow market share in these areas.
- Another trend in the industry is regulation and tax considerations moving against the industry. With environmental and health concerns, there has been an increase in sugar tax and higher regulation towards plastic.

Competitive Advantages:

- Market leader in packaged snacks and beverages
- Industry leading supply chain and distribution networks
- Cost advantage among industry peers

Competitors:

- The Coca-Cola Company, The Kraft Heinz Company, Mondelez International Inc., Unilever PLC, Nestle S.A.

Customers:

- Grocery stores, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce

Barriers to Entry:

- **Branded Portfolio** – Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not likely be able to gain enough market share from brand-loyal consumers to compete and survive.
- **Asset Heavy Industry** – Although the barriers to entry for the beverage industry are relatively low, producing beverage products at scale requires a large amount of plant and equipment which will be difficult for new entrants to establish.
- **Established Distribution Network** – PepsiCo has one of the best distribution networks in the world and is a key part to its success. New entrants within this industry will find it almost impossible to replicate this network and thus find limited success in the beverage industry.

Officers & Directors:

Ramon Luis Laguarta, Chairman & Chief Executive Officer; **Hugh Johnston**, Vice Chairman, EVP & Chief Financial Officer; **Rene Lammers**, Chief Scientific Officer; **Simon Lowden**, Chief Sustainability Officer; **Jennifer Saenz**, President – Global Foods.



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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	63,056.0	62,799.0	63,525.0	64,661.0	67,161.0
Operating Costs	(54,782.0)	(52,995.0)	(53,249.0)	(54,551.0)	(56,870.0)
Operating Profit (EBIT)	8,274.0	9,804.0	10,276.0	10,110.0	10,291.0
Profit before Tax	7,393.0	8,503.0	9,551.0	9,145.0	9,273.0
Net Profit	5,452.0	6,329.0	4,857.0	12,515.0	7,314.0
EPS (Diluted)	3.67	4.36	3.38	8.78	5.20
Dividends per Share	2.76	2.96	3.17	3.59	3.79

Balance Sheet

Total assets	68,976.0	73,490.0	79,804.0	77,648.0	78,547.0
Long-term debt	29,213.0	30,053.0	33,796.0	28,295.0	29,148.0
Total equity	11,923.0	11,095.0	10,889.0	14,518.0	14,786.0

Statement of Cash Flow

Cash from operations	10,580.0	10,404.0	10,030.0	9,415.0	9,649.0
Cash from investing	(3,569.0)	(7,148.0)	(4,403.0)	4,564.0	(6,437.0)
Cash from financing	(3,828.0)	(2,942.0)	(4,186.0)	(13,769.0)	(8,489.0)

Key Ratios and Figures (%)

EBIT Margin	13.1%	15.6%	16.2%	15.6%	15.3%
Return on Equity	45.7%	57.0%	44.6%	86.2%	49.5%

Source: PepsiCo 2019 Annual Report



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